

we are:

Polyair Inter Pack Inc. manufactures protective packaging and swimming pool accessory products, which are sold through a select network of some 2,500 distributors across North America. Headquartered in Toronto, Ontario, Polyair operates ten manufacturing facilities, seven of which are based in the United States, where the Company generates approximately 85 percent of its annual sales. The shares are listed on both the Toronto Stock Exchange and the American Stock Exchange under the symbol "PPK."

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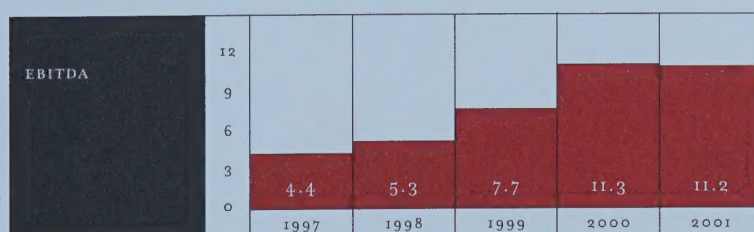
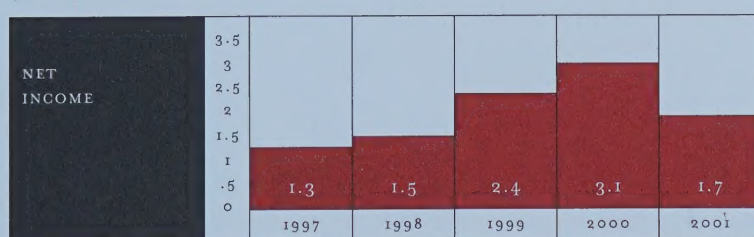
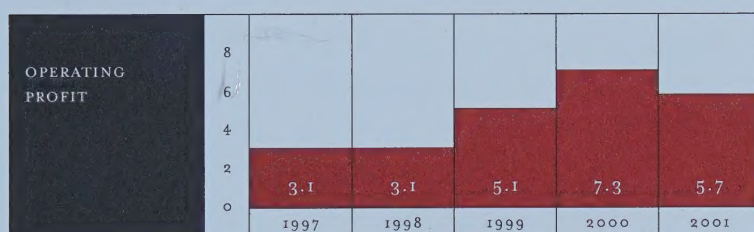
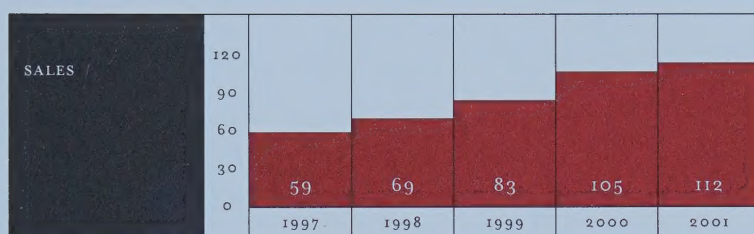
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we know: the way

Financial Highlights

(\$ in millions of U.S. dollars)



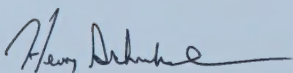
President's Message

I am pleased to report that this year Polyair continued to show growth in revenues. Despite the challenges of the deteriorating economy and the impact of September 11, we held firm to our proven strategies to broaden product offerings, expand into new geographic markets and widen our channels of distribution. We are proud that through the recessionary period of 2001, Polyair was able to maintain its solid market share and introduce new, innovative products to its customer base.

In 2001 the Company undertook various programs in order to position itself against the impact of the recessionary climate. Our primary goal, to remain profitable, was achieved. We continued to invest in equipment, expand our product offerings and, most importantly, did not institute any employee lay-offs or plant closure measures. Our success this past year was the result of cost controls. Primarily, we initiated a hiring freeze and a comprehensive cost reduction program. Due to the efforts of our exceptional management team and devoted employees, we were able to initiate these programs to maintain our competitive edge and ensure that the Company is well positioned for 2002. As a result of approximately \$37 million of strategic investments over the last five years, Polyair has the resources to meet customer demands as the economy resumes expansion. We are able to meet these expectations because our plants are strategically located with ample capacity, and we employ 800 people who are capable of delivering quality products and exemplary service.

Polyair is fortunate to have two experienced, talented individuals operating its two business units, with a combined 33 years of service with Polyair. Gary Crandall, President of the Pool Group, has led the Company in its expansion into new products and has modified its product groupings in order to ensure Cantar's leadership in the pool industry. Alan Castle, President of the Packaging Group, has solidified Polyair's customer base and expanded the product lines to ensure that the Company has a wider range of products to meet today's customer demands. We have experienced tremendous growth in the retail-packaging sector, and we have initiated new programs to ensure that the Packaging Group remains an important supplier to the retail and electronic commerce marketplace.

Polyair is a solid success story that has been in business since 1968. Our innovative and creative search for new opportunities in both the pool and packaging businesses has enabled our Company to be a leader. Together with the Executives, Directors, Officers and Employees of Polyair, I am looking forward to fiscal 2002 with renewed confidence and enthusiasm.



Henry Schnurbach
President and Chief Executive Officer

we make: more than bubble

Packaging Products Profile

At Polyair we make more than just bubble. We manufacture a complete line of protective packaging products. Our five major categories include Durabubble with remarkable burst strength, Mailers aimed at meeting every mailing and fulfillment requirement, Starfoam for surface protection and cushioning, Insulation that utilizes radiant technology and our Systems group that includes the AirSpace and TotalFoam solutions.

DURABUBBLE®

Durabubble's unmatched burst strength makes it the toughest bubble in the industry. It is the ideal solution for cushioning, void-filling and surface protection. Durabubble has been designed to perform under pressure.

Available in:

Standard and Anti-Static Rolls
Box-A-Bubble® and Handi-Pak dispensers
Duramask™ adhesive
Durabond™ cohesive
Durakraft laminate
E-Z Seal Pouches
Endurabubble™ tri-web
Anti-static shielding

MAILERS

Our Mailers combine excellent cushioning with a variety of rugged exteriors. Each mailer can be custom printed to suit any promotional or advertising need. This year's featured product is the eCom Mailer™. This mailer is an easy-to-use protective shipping container perfectly suited for e-commerce transactions. All our mailers are lightweight and provide low-cost shipping protection for a wide variety of products.

Available in:

Ecolite® golden kraft bubble mailer
eCom™ polyethylene bubble mailer
Fastpak® polyethylene courier mailer
Decolite decorative bubble mailer

STARFOAM®

The superiority of Starfoam is the result of advanced technology. Starfoam's strength comes from its cell structure, which is naturally resistant to punctures and tears. This makes Starfoam the perfect solution for surface protection and cushioning.

Available in:

Standard and Anti-Static Rolls
Pouches and Sheets
Starmask™ adhesive
Starbond™ cohesive
Lamifoam® poly-laminate
Starkraft™ laminate
Lamifilm® bags
Starnet® woven laminate
Starmover® ventilated laminate

SYSTEMS

Each of Polyair's system solutions has been engineered to be highly efficient and user-friendly. The AirSpace® Inflatable Pillow Packaging System provides on-demand air pillows for cushioning and void-filling. This technology can be integrated into conveyor packaging lines via a standard or custom engineered shuttle delivery system. The TotalFoam® foam-in-place system provides expanding polyurethane foam for blocking, bracing and void-filling.

Available in:

AirSpace® unit and accessories
TotalFoam™ unit and accessories

INSULATION

Flexfoil® and Flexotherm® are uniquely designed products for the residential and commercial construction industry. Both products have an aluminum outer surface, which reflects up to 97% of radiant heat back to its source. These products increase a home's efficiency along with raising comfort levels. The latest addition to the insulation line-up is the Sure-Set® Curing Blanket. Available in a variety of configurations, these blankets will help concrete slabs set up in mild temperatures.

Available in:

Flexfoil®
Flexotherm®
Sure-Set® Concrete Curing Blankets

we are: diversified

Pool Products Profile

Established in 1968, our product line has grown to include an exciting array of first-quality swimming pool products.

Aqua Cover® Solar Blankets

Bubble blanket floats on swimming pool to conserve heat and energy.

Aqua Cover® Solar Blanket Reel Systems

Enables one person to manually remove solar blanket from pool. Increases solar blanket life.

Aqua Foam® Polyethylene Wall Lining Foam

Lines the inside walls of a swimming pool before a vinyl liner is installed.

Molly Brown® Floatation Cushions

Unsinkable float filled with 20,000 individual air cells. 100-year no-sink warranty.

Aqua Cover® Leaf Nets

Open mesh cover keeps leaves and debris out of the pool in spring and fall.

Aqua Cover® Winter Covers

Triple polyethylene laminate covers for winter pool protection.

Aqua Cover® Water Tubes

Vinyl tubes filled with water to hold down winter covers.

Aqua Liner® Vinyl Liners

PVC vinyl lining, available in many attractive patterns, installed in pool to hold water.

Secur-A-Pool® Safety Cover Systems

Visually appealing mesh pool cover consisting of strap and spring suspension system which supports sufficient weight to protect pool from accidental intrusion.

Secur&Clean® Solid Pool Protection Systems

Similar to above, features a non-porous fabric. Keeps pool cleaner, while still providing protection.

Protect-A-Pool® Above Ground Fencing

Resin above ground fencing with optional gate. Fits all sizes and styles of above ground pools.

Protect-A-Pool® In-Ground Removable Safety Fence

Removes and installs in minutes and is ideally suited for any environment. The fence has a climb resistant surface and exceeds OSHA test standards.

Summer Fun® Above Ground Pools

Easy to install, reasonably priced pools. Named for the reason families purchase pools.

Recreational Products

Camping pads made with air bubble and foam.

Construction Tarpaulins

Used to insulate scaffolding, materials and workers on construction sites from the elements.

Secur-A-Matic® Automatic Safety Cover

One touch of a button rolls this premium electronic safety cover on or off the pool.

we have: the results

Five-Year Financial Summary

Years ended October 31	2001	2000	1999	1998	1997
<i>(in thousands of U.S. dollars)</i>	\$	\$	\$	\$	\$
Operating Results					
Sales	111,624	104,964	83,431	68,985	58,524
Earnings before interest, taxes, depreciation and amortization	11,205	11,319	7,710	5,335	4,417
Operating profit	5,671	7,284	5,131	3,152	3,073
Net income	1,665	3,126	2,365	1,451	1,295
Cash provided by (used in) operations	6,710	1,165	8,163	5,868	(3,372)

As at October 31	2001	2000	1999	1998	1997
<i>(in thousands of U.S. dollars)</i>	\$	\$	\$	\$	\$
Balance Sheet Data					
Working capital	(3,871)	6,052	6,892	8,049	6,003
Total assets	68,613	68,529	52,214	49,205	41,697
Total long-term debt (see below)	20,950	23,723	18,458	16,768	10,230
Additions to plant and equipment	5,296	12,491	6,830	7,228	6,135

As at October 31	2001	2000	1999	1998	1997
<i>(in thousands of U.S. dollars)</i>	\$	\$	\$	\$	\$
Current portion of long-term debt	11,589	3,438	2,734	1,736	1,203
Long-term portion	9,361	20,285	15,724	15,032	9,027
Total long-term debt	20,950	23,723	18,458	16,768	10,230

MD&A

Management's Discussion and Analysis

QUARTERLY FINANCIAL RESULTS (in thousands of U.S. dollars, except per share amounts)

For the quarters ending	2000				2001			
	Jan 31	Apr 30	July 31	Oct 31	Jan 31	Apr 30	July 31	Oct 31
Net Sales	19,126	25,680	28,706	31,452	23,735	26,948	29,918	31,023
Net Income	(296)	1,028	1,043	1,351	(479)	12	491	1,641
Per Share Basic	(0.04)	0.15	0.16	0.21	(0.07)	nil	0.07	0.27

For the year ended October 31, 2001 compared to the fiscal year ended October 31, 2000

Sales for the year ended October 31, 2001 at \$111.6 million increased 6.3% or \$6.7 million over the comparable period in 2000. The increase in net sales primarily reflects increased unit volumes from acquisitions in 2000 and products introduced in fiscal 2000.

Sales of packaging products increased 10% to \$80.3 million, while sales of pool products decreased 2% to \$31.3 million. The increase in sales of packaging products is due primarily to the acquisition of the assets of Accent Packaging in 2000. Pool product sales were negatively impacted as a result of the adverse spring weather in our major markets.

Operating earnings before interest, taxes and depreciation and amortization (EBITDA) at \$11.2 million were down slightly from \$11.3 million in 2000.

Cost of sales increased by 7.4% over the comparable period in 2000 as a result of higher net sales and manufacturing overhead expenses related to the company's expansion in anticipation of higher volumes in Fiscal 2001.

Selling and administrative expenses increased by 13.9% from the comparable period in 2000. As a percentage of sales, selling and administrative expenses increased to 15.9% from 14.9% in 2000 due primarily to increased support costs related to the AirSpace product line.

Operating profit decreased to \$5.7 million from \$7.3 million in 2000. The decrease was mainly due to the lower gross margin and increased support costs.

Interest expense for both our long-term debt and other interest increased as a result of higher average borrowings in 2001.

For the year ended October 31, 2000 compared to the fiscal year ended October 31, 1999

As of the first quarter of fiscal 2000, the Company began reporting results in United States dollars. The results for the prior fiscal years have been converted to United States dollars at the exchange rate in effect on October 31, 1999.

Sales for the year ended October 31, 2000 were \$105.0 million, representing an increase of approximately 26% or \$21.6 million over the comparable period in 1999. The increase in net sales primarily reflects increased volumes and new product introductions.

Sales of packaging products increased by 32% to \$73.1 million, while sales of pool products increased 13% to \$31.9 million. The increase in packaging revenues was due primarily to increased unit sales in most packaging products, sales for the entire year from the PSC Moulding operation which was acquired in August 1999, sales for the two month period from the recently acquired Accent Packaging Products and new product introductions. Pool product revenues increased primarily due to higher volumes of most products.

Operating earnings before interest, taxes and depreciation and amortization (EBITDA) increased 47% to \$11.3 million from \$7.7 million in 1999.

Gross margin at 21.8% remained relatively constant compared to 21.7% in 1999. Our manufacturing overheads as a percentage of sales increased mainly due to higher depreciation expense.

Selling and general and administrative expenses as a percentage of sales decreased to 14.9% in 2000 from 15.6% in fiscal 1999.

Operating profit increased to \$7.3 million from \$5.1 million in 1999. This was due primarily to the increase in sales volumes and new product introductions.

Interest on long-term debt increased as a result of increased borrowings related to acquisitions and capital expenditures made during the current year and higher interest rates for the floating rate portions of our long-term debt. Other interest expense increased due to higher average borrowings under our working capital line and higher interest rates.

Liquidity and Capital Resources *(October 31, 2001)*

The company's principal sources of liquidity are cash on hand, unused borrowing capacity under existing lines of credit and the cash flow from operations.

At year end the company had unused available borrowing capacity of approximately USD \$6.0 million. The company is negotiating a new banking agreement with its lenders to replace its facility that expires on June 30, 2002. Accordingly, until a new facility is finalized, the term loans drawn under the line of credit have been reclassified as current liabilities.

Accounts receivable decreased marginally from October 2000. The year-over-year decrease is due to lower sales in the fourth quarter of 2001 compared to the fourth quarter of 2000. Days sales outstanding remained constant at 48 days.

Inventories at \$13.7 million at October 2001 increased marginally from October 2000. Total inventory turnover increased to 6.4 times in 2001 from 6.0 times in 2000.

Cash provided by operations before changes in working capital improved marginally to \$7.9 million from \$7.8 million in 2000 and investment in working capital increased \$1.2 million during the year.

The investment in working capital was largely financed by an increase in borrowings on the Company's working capital bank lines. Total investment of \$5.3 million in new equipment was financed using operating cash flows.

Risks and Uncertainties

Effective November 1, 1999, the Company adopted the U.S. dollar as the reporting currency for its operating results. The Company's sales revenues are generated primarily in the United States in U.S. dollars. The Canadian dollar is the functional currency of the Company's Canadian operations. Income statement results are translated using the average rate of exchange for the year and all assets and liabilities are translated at the year end exchange rate.

The Company purchases goods and services in both functional currencies. To reduce its exposure to exchange rate fluctuations, the Company may hedge its currency risk based on management's view of currency trends, estimated currency requirements and consultation with the Company's financial advisors.

Demand and pricing for certain of the Company's protective packaging and pool accessory products are cyclical in nature and are subject to general economic conditions that affect the market demand. Adverse spring weather may affect pool product sales volumes. The Company seeks to manage these risks through regional expansion and product line diversification in the major markets of the U.S. and with new product introductions and innovations.

The Company is subject to a wide range of environmental laws and regulations in Canada and the United States pertaining to the discharge of materials into the environment, the handling and disposition of wastes and otherwise relating to protection of the environment. Although all facilities are in compliance with regulatory standards, there can be no assurance that changes in environmental laws and regulations, or their application, will not require further expenditures by the Company.

Consistent with other businesses, the Company faces a certain degree of credit risk arising from sales of products on credit terms to customers. Due to the diversity of its customer base, the Company is not exposed in a material manner to credit risk from any one customer. The Company attempts to mitigate its credit risk through the establishment of credit limits and terms of sales with its customers. Credit limits are reviewed and monitored regularly.

Change in Accounting Policies

During 2001, the Canadian Institute of Chartered Accountants issued several new accounting pronouncements, the impact of which the Company is currently assessing. (See note 1(o) to the Consolidated Financial Statements.)

auditors' report

to the Shareholders

We have audited the consolidated balance sheets of Polyair Inter Pack Inc. as at October 31, 2001 and 2000 and the consolidated statements of income and retained earnings and cash flows for each of the years in the three-year period ended October 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

With respect to the consolidated financial statements for the years ended October 31, 2001 and 2000, we conducted our audits in accordance with Canadian generally accepted auditing standards and United States generally accepted auditing standards. With respect to the consolidated financial statements for the year ended October 31, 1999, we conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2001 and 2000 and the results of its operations and its cash flows for each of the years in the three-year period ended October 31, 2001 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

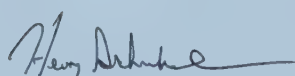
Chartered Accountants
Toronto, Canada
January 11, 2002

Consolidated Balance Sheets

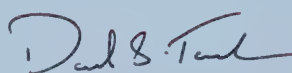
October 31, 2001 and 2000	2001	2000
<i>(in thousands of U.S. dollars)</i>	\$	\$
ASSETS		
Current assets:		
Cash and cash equivalents	897	1,102
Accounts receivable, net of allowance for doubtful accounts	16,162	16,820
Income taxes receivable	809	757
Inventory <i>(note 3)</i>	13,738	13,160
Future income tax assets <i>(note 9)</i>	359	475
Prepaid expenses and other	768	616
	32,733	32,930
Capital assets, net <i>(note 4)</i>	33,947	33,825
Future income tax assets <i>(note 9)</i>	511	589
Intangible and other assets, net <i>(note 5)</i>	1,422	1,185
	68,613	68,529
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank indebtedness <i>(note 6)</i>	9,710	7,131
Accounts payable	10,409	11,780
Accrued liabilities	4,537	4,035
Income taxes payable	359	494
Current portion of long-term debt <i>(note 7)</i>	11,589	3,438
	36,604	26,878
Long-term debt <i>(note 7)</i>	9,361	20,285
Future income tax liabilities <i>(note 9)</i>	2,823	2,336
Shareholders' equity:		
Capital stock <i>(note 8)</i>	9,933	10,376
Retained earnings	10,191	8,780
Cumulative translation account	(299)	(126)
	19,825	19,030
Commitments and contingencies <i>(notes 6, 7, 10 and 12)</i>		
	68,613	68,529

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Henry Schnurbach
Director



Daniel S. Tamkin
Director

Consolidated Statements of Income and Retained Earnings

Years ended October 31, 2001, 2000 and 1999	2001	2000	1999
<i>(in thousands of U.S. dollars, except per share amounts)</i>	\$	\$	\$
Sales	111,624	104,964	83,431
Cost of sales	88,163	82,058	65,297
Gross profit	23,461	22,906	18,134
Expenses:			
Selling	10,226	8,664	7,295
General and administrative	7,564	6,958	5,708
	17,790	15,622	13,003
Operating profit	5,671	7,284	5,131
Interest expense, net <i>(note 7)</i>	2,599	2,024	1,363
Income before minority interest and income taxes	3,072	5,260	3,768
Minority interest	3	10	(10)
Income taxes <i>(note 9):</i>			
Current	705	1,496	990
Future	705	648	403
	1,410	2,144	1,393
Net income	1,665	3,126	2,365
Retained earnings, beginning of year	8,780	6,067	3,864
Purchase of treasury stock <i>(note 8)</i>	(254)	(413)	(162)
Retained earnings, end of year	10,191	8,780	6,067
Earnings per share:			
Basic	0.27	0.48	0.35
Diluted	0.27	0.48	0.35
Weighted average number of shares outstanding:			
Basic	6,232,052	6,571,400	6,719,940

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended October 31, 2001, 2000 and 1999	2001	2000	1999
<i>(in thousands of U.S. dollars)</i>	\$	\$	\$
Cash provided by (used in):			
Operating activities:			
Net income	1,665	3,126	2,365
Items which do not involve cash:			
Depreciation and amortization	5,534	4,035	2,579
Future income taxes	705	648	403
Minority interest	(3)	(10)	10
	7,901	7,799	5,357
Change in non-cash working capital:			
Accounts receivable	577	(4,727)	(1,246)
Inventory	(708)	(3,730)	203
Prepaid expenses and other	(167)	(276)	37
Accounts payable and accrued liabilities	(697)	2,618	2,841
Income taxes payable	(196)	(519)	971
	6,710	1,165	8,163
Financing activities:			
Increase in long-term debt	—	8,200	5,027
Decrease in long-term debt	(2,744)	(2,867)	(3,431)
Increase (decrease) in bank indebtedness	2,624	5,894	(4,539)
Purchase of treasury stock <i>(note 8)</i>	(697)	(709)	(370)
	(817)	10,518	(3,313)
Investing activities:			
Purchase and deposits on building and equipment	(5,296)	(7,313)	(6,203)
Acquisitions, net of cash acquired <i>(note 2)</i>	—	(5,438)	(607)
Other	(418)	(181)	(52)
	(5,714)	(12,932)	(6,862)
Effect of foreign currency translation on cash balances	(384)	(108)	(312)
Decrease in cash and cash equivalents	(205)	(1,357)	(2,324)
Cash and cash equivalents, beginning of year	1,102	2,459	4,783
Cash and cash equivalents, end of year	897	1,102	2,459
Supplemental cash flow information:			
Interest paid	2,151	1,950	1,390
Income taxes paid, net of refunds	1,070	1,964	141

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(Tabular amounts in thousands of U.S. dollars, except for share amounts)

Years ended October 31, 2001, 2000 and 1999

Polyair Inter Pack Inc. (the "Company") manufactures and markets packaging and pool products to distributors located primarily in North America. The majority of the Company's sales are to customers in the United States from operations in the United States. The Company was incorporated under the Business Corporations Act, Ontario.

The accompanying consolidated financial statements include the accounts of the Company's wholly owned subsidiaries, Cantar/Polyair Inc., Cantar/Polyair Corporation, Cantar/Polyair Canada Limited, Performa Corp., C/P International Corp. Inc., Cantar/Polyair of Illinois Inc. and from the dates of acquisition, Mabex Universal Corp. and P.S.C. Moulding Corporation (76% owned) (note 2). All significant intercompany accounts and transactions have been eliminated on consolidation.

1. Significant accounting policies:

The consolidated financial statements of the Company have been prepared by management in accordance with accounting principles generally accepted in Canada and, except as described in note 15, conform in all material respects with accounting principles generally accepted in the United States and practices prescribed by the United States Securities and Exchange Commission.

(a) Change in reporting currency:

The Company previously reported its consolidated financial statements in Canadian dollars. As a result of the Company's rapid growth across the United States, together with its listing on the American Stock Exchange, the Company adopted the U.S. dollar as the reporting currency for preparation of its consolidated financial statements effective November 1, 1999. Comparative figures previously reported have been translated into U.S. dollars at the exchange rate in effect on October 31, 1999.

The U.S. dollar is the functional currency of the Company's United States operations. The Canadian dollar is the functional currency of the Company's Canadian operations, which are translated into U.S. dollars using the current rate method. Under this method, all assets and liabilities are translated at the year-end rate of exchange and all revenue and expense items are translated at the average rate of exchange for the year. Exchange rate differences arising on translation are deferred as a separate component of shareholders' equity.

b) Measurement uncertainty:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. The most significant estimates are related to the valuation of accounts receivable and future income taxes. Actual results could differ from those estimates.

(c) Revenue recognition:

Revenue from product sales is recognized when title passes to the customer.

(d) Cash and cash equivalents:

The Company considers all highly liquid financial instruments with maturity of three months or less at acquisition to be cash equivalents.

(e) Inventory:

Raw material inventory is stated at the lower of cost and replacement cost. Finished goods inventory is stated at the lower of cost, determined by the first-in, first-out method, and net realizable value.

(f) Capital assets:

Capital assets are recorded at cost, including, for major projects, interest capitalized during the construction period. Depreciation is recorded once assets are in use and is calculated using the straight-line method at annual rates designed to amortize the cost over their estimated useful lives as follows:

Buildings	2 1/2%
Machinery and equipment	10%-50%
Furniture and fixtures	20%
Computer equipment	33%
Leasehold improvements	Over term of lease plus first renewal term

Maintenance and repairs are charged to operations as incurred; significant improvements are capitalized.

- (g) Patent, trademarks and licence agreement:
Patent, trademarks and licence agreement are stated at cost, net of accumulated amortization. Amortization is provided over the economic useful lives of the intangible assets using the straight-line method.
- (h) Deferred financing costs:
Deferred financing costs are amortized over the term of the related financing.
- (i) Goodwill:
Goodwill is amortized on a straight-line basis over 10 years. The Company periodically evaluates permanent impairment of goodwill by reference to expected undiscounted operating cash flow of the respective entities.
- (j) Financial instruments:
The Company, in the normal course of business, periodically enters into forward exchange contracts, swaps and options to manage foreign currency exposures. Gains and losses on these financial instruments are recognized in the same year as the underlying exposure being hedged.
- (k) Income taxes:
The Company follows the asset and liability method of accounting for income taxes. Under the asset and liability method of accounting for income taxes, future tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying value and tax basis of assets and liabilities. Future tax assets and liabilities are measured using substantially enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that the rate changes.
- (l) Stock-based compensation plan:
The Company has a stock-based compensation plan, which is described in note 8. No compensation expense is recognized for this plan when stock or stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital.
- (m) Earnings per share:
In fiscal 2000, the Company retroactively adopted the new provisions of the Canadian Institute of Chartered Accountants' ("CICA") Handbook, Section 3500, "Earnings per Share". Basic earnings per share is computed using the weighted average number of common shares that are outstanding during the year. This method is consistent with that previously applied. Diluted earnings per share is computed using the weighted average number of common and potential common shares outstanding during the year. Potential common shares consist of the incremental number of common shares issuable upon the exercise of stock options using the treasury stock method. Previously, the Company calculated diluted earnings per share using the current imputed earnings method.
- (n) Comparative figures:
Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.
- (o) Recently issued accounting pronouncements:
Stock-based compensations and other stock-based payments:
In December 2001, the CICA issued Handbook Section 3870, which establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services provided by employees and non-employees. The standard requires that a fair value based method of accounting be applied to all stock-based payments to non-employees and to employee awards that are direct awards of stock, that call for settlement in cash or other assets or are stock appreciation rights that call for settlement by the issuance of equity instruments. However, the new standard permits the Company to continue its existing policy of recording no compensation cost on the grant of stock options to employees. Consideration paid by employees on the exercise of stock options is recorded as share capital. The standard is effective for the Company's fiscal year beginning November 1, 2002 for awards granted on or after that date. The Company is currently assessing the impact of this new accounting pronouncement.
- Foreign currency translation and hedging relationships:
CICA Handbook Section 1650 has been amended to eliminate the deferral and amortization of foreign currency translation gains and losses on long-lived monetary items, effective for the Company's fiscal year beginning on November 1, 2002 with retroactive restatement of prior periods. The CICA issued Accounting Guideline AcG-13 which establishes criteria for hedge accounting effective for the Company's 2003 fiscal year. The Company is currently assessing the impact of these new accounting pronouncements.

Business combinations and goodwill:

In September 2001, the CICA issued Handbook Sections 1581, "Business Combinations", and 3062, "Goodwill and Other Intangible Assets". The new standards mandate the purchase method of accounting for business combinations and require that goodwill no longer be amortized but instead be tested for impairment at least annually. The standards also specify criteria that intangible assets must meet to be recognized and reported apart from goodwill. The standards require that the value of the shares issued in a business combination be measured using the average share price for a reasonable period before and after the date the terms of the acquisition are agreed to and announced. Previously, the consummation date was used to value the shares issued in a business combination. The new standards are substantially consistent with United States GAAP.

In connection with Section 3062's transitional goodwill impairment evaluation, the Company is required to assess whether goodwill is impaired as of November 1, 2002. The Company has up to six months to determine the fair value of its reporting units and compare that to the reporting units' carrying amounts. To the extent a reporting unit's carrying amount exceeds its fair value, the Company must perform a second step to measure the amount of impairment in a manner similar to a purchase price allocation. Any transitional impairment will be recognized as an effect of a change in accounting principle and will be charged to opening retained earnings as of November 1, 2002.

As of October 31, 2001, the Company had unamortized goodwill of \$871,000 and unamortized other intangible assets of \$245,000, all of which are subject to the transitional provisions of Sections 1581 and 3062. Because of the effort required to comply with the remaining provisions of Sections 1581 and 3062, the Company has not estimated the impact of these provisions on its financial statements.

2. Acquisitions:

- (a) Effective August 23, 2000, the Company acquired substantially all of the assets of Accent Packaging ("Accent"), a division of Century Products Inc., and certain assets of Beco Building Products Inc. ("Beco"). Accent, a regional manufacturer of a specialized line of packaging products, including bubble mailers and bubble and reflective insulation, has facilities in Atlanta, Georgia, and Malden, Massachusetts. Beco is a supplier of specialized building materials and services to commercial users. The total consideration for the assets purchased was cash of \$5.4 million including acquisition costs. The results of operations have been consolidated from the date of acquisition. The purchases are accounted for using the purchase method and the purchase cost was allocated to the fair value of the net assets acquired as follows:

	\$
Inventory	260
Capital assets	5,178
	5,438

- (b) Effective July 31, 1999, the Company acquired a 76% interest in P.S.C. Moulding Corp. ("PSC"), an Ontario-based manufacturer and marketer of polystyrene moulded products with applications in packaging and construction products, for cash consideration of \$607,000. The results of operations have been consolidated from the date of acquisition. The acquisition is considered a related party transaction for accounting purposes. A director and significant shareholder of the Company was a director of the vendor of PSC. The acquisition is accounted for by the purchase method, and the purchase cost was allocated to the fair value of the net assets acquired as follows:

	\$
Current assets	602
Capital assets	627
Goodwill	618
	1,847
Current liabilities assumed	(239)
Long-term liabilities assumed	(960)
Future income tax liabilities	(41)
	(1,240)
Net purchase cost	607

The goodwill of \$0.6 million represents the excess of the purchase cost over the estimated fair value of net assets acquired and is being amortized on a straight-line basis over its estimated useful life of 10 years.

PSC is subject to a 10-year Management Agreement at an annual management fee of \$140,000 and the Company's shares of PSC have been pledged as collateral security under this Management Agreement.

3. Inventory:

	2001	2000
	\$	\$
Raw materials	8,440	8,765
Finished goods	5,298	4,395
	13,738	13,160

4. Capital assets:

			2001	2000
	\$	\$	\$	\$
	Cost	Accumulated depreciation	Net book value	Net book value
Land	132	—	132	132
Buildings	7,914	790	7,124	7,309
Machinery and equipment	36,776	14,638	22,138	23,121
Furniture and fixtures	917	622	295	346
Computer equipment	2,585	1,833	752	994
Leasehold improvements	2,177	1,098	1,079	1,092
Construction in progress	2,427	—	2,427	831
	52,928	18,981	33,947	33,825

5. Other assets:

			2001	2000
	\$	\$	\$	\$
	Cost	Accumulated amortization	Net book value	Net book value
Patent, trademarks and licence agreement	434	189	245	266
Deferred financing costs	726	420	306	366
Goodwill	1,066	195	871	553
	2,226	804	1,422	1,185

6. Bank indebtedness:

The Company has a total line of credit of approximately \$33.5 million, of which \$16.0 million is for working capital with availability determined monthly based on eligible accounts receivable and inventory. At October 31, 2001, there is an unused available working capital line of credit of approximately \$6.3 million. The remaining \$17.5 million is for capital expenditures, acquisitions and new business opportunities, of which \$10 million (2000 — \$11.8 million) has been used as a term loan and \$7.5 million (2000 — \$8.2 million) has been used as a letter of credit to support debt facilities. The letter of credit is subject to a fee of 1.0% per annum. The line of credit is reviewed and renewed annually and is subject to an unused credit facility fee of 0.125% per annum on the undrawn balance. The line of credit expires June 30, 2002 and the Company is currently negotiating the terms of a new replacement facility with its bankers. Accordingly, until a revised facility is finalized, the term loans drawn under the line of credit have been classified as current portion of long-term debt, included in current liabilities.

	2001	2000
	\$	\$
\$11,000,000 credit facility, interest payable at U.S. prime plus 0.5% or LIBOR plus 2.25%	8,523	4,613
\$5,000,000 in Canadian dollar equivalent credit facility, interest payable at Canadian prime	1,187	2,518
	9,710	7,131

7. Long-term debt:

	2001	2000
	\$	\$
Term loan, repayable by monthly principal payments of \$99,500 plus interest at prime plus 0.5% (note 6)	5,323	6,518
Term loan, repayable by monthly principal payments of \$83,333 plus interest at prime plus 2% (note 6)	4,700	5,000
Debenture loan, bearing interest at 6.5% per annum, maturing April 1, 2005	4,000	4,000
Debenture loan, repayable by quarterly sinking fund installments. The rate of interest is floating, based on the rates prevalent for the highest rated short-term, U.S. federally tax-exempt obligations, maturing June 1, 2016	2,895	2,988
Loan, repayable by monthly blended principal and interest installments of \$20,527, bearing interest at 3%, maturing January 2006	982	1,195
Loan, repayable by monthly blended principal and interest installments of \$14,075, bearing interest at 3%, maturing March 2007	842	984
Canadian dollar-denominated term loan, repayable by monthly principal installments of Cdn. \$20,250 plus interest at prime plus 1%, maturing October 30, 2006 (note 6)	770	953
Loan, repayable by monthly blended principal and interest installments of \$12,903, bearing interest at 3%, maturing June 2007	804	933
Debenture loan, repayable by quarterly sinking fund installments. The rate of interest is floating, based on the rates prevalent for the highest rated short-term, U.S. federally tax-exempt obligations, maturing September 2003	293	442
Term loan, repayable by monthly blended principal and interest installments of \$17,012, bearing interest at 7.756%, due April 2002	100	276
Note payable, repayable in quarterly blended principal and interest installments of \$16,942, bearing interest at 12%, maturing October 31, 2005	218	256
Term loan, repayable by monthly blended principal and interest installments of \$14,939, bearing interest at 7.756% per annum, due August 2001	—	137
Loan, repayable by monthly blended principal and interest installments of \$1,640, bearing interest at 6%, maturing February 1, 2003	23	41
	20,950	23,723
Less current portion	11,589	3,438
	9,361	20,285

Certain of the loans are guaranteed by a bank letter of credit. The line of credit and the loan agreements are secured by substantially all the assets of the Company and contain various restrictive covenants relating to, among other things, minimum levels of tangible net worth and net income, limitations of indebtedness and building and equipment purchases, and various other items.

	2001	2000	1999
	\$	\$	\$
Interest expense on long-term debt	1,518	1,243	931
Other interest expense	1,091	850	590
Interest income	(10)	(69)	(158)
	2,599	2,024	1,363

Aggregate maturities on long-term debt are as follows:

	\$
2002	11,589
2003	1,478
2004	1,863
2005	2,902
2006	673
Thereafter	2,445
	20,950

8. Capital stock:

Authorized:

Unlimited common shares

Issued:

	2001		2000	
	Shares	Amount	Shares	Amount
Outstanding, beginning of year	6,502,100	10,376	6,685,400	10,672
Shares repurchased for cancellation	(286,800)	(443)	(183,300)	(296)
Outstanding, end of year	6,215,300	9,933	6,502,100	10,376

During the year, the Company repurchased for cancellation 286,800 (2000 – 183,300) common shares pursuant to a Normal Course Issuer bid at an average cost of \$2.43 (2000 – \$3.87) per share. The excess of the purchase cost over the book value of the shares was charged to retained earnings.

Stock options:

The Board of Directors may, at its discretion, grant options to purchase shares which vest over a period of seven years, to directors, officers or full-time salaried employees of the Company. One-seventh of the options are exercisable on the date of grant, with the balance vesting one-seventh on each of the next six anniversary dates. All options expire seven years from the date of grant. Under the plan 941,000 options are issuable. At year end, the weighted average remaining contractual life of the options is 1.7 years (2000 – 2.7 years; 1999 – 3.6 years) and 707,443 (2000 – 609,443; 1999 – 409,000) options are exercisable, at \$6.00.

	Options (\$ 000's)			Average exercise price (Cdn. \$ per share)		
	2001	2000	1999	2001	2000	1999
Outstanding, beginning of year	872	841	820	6.00	6.00	6.00
Granted	19	36	21	6.00	6.00	6.00
Cancelled	(20)	(5)	—	(6.00)	(6.00)	(6.00)
Outstanding, end of year	871	872	841	6.00	6.00	6.00

9. Income taxes:

	2001	2000	1999
	\$	\$	\$
Current income taxes:			
U.S. federal	725	977	437
U.S. state	129	407	47
Canada	(149)	112	506
	705	1,496	990
Future income tax expense:			
U.S. federal	331	392	148
U.S. state	70	85	34
Canada	304	171	221
	705	648	403
	1,410	2,144	1,393

The Company's income tax expense differs from the amount that would have resulted by applying Canadian statutory tax rates of approximately 42.4% (2000 – 44.1%; 1999 – 44.6%) to earnings as described below:

	2001	2000	1999
	\$	\$	\$
Income tax expense calculated using statutory tax rates	1,303	2,320	1,681
Non-deductible expenses	113	99	44
Manufacturing and processing profits deduction	4	(25)	(82)
Foreign earnings subject to different tax rates	(115)	(263)	(125)
Large corporations tax	25	11	—
Revaluation of benefit of loss carryforwards	—	342	—
Future tax amounts previously unrecognized	43	(120)	—
Reduction in valuation allowance	(36)	(286)	(201)
Other	73	66	76
	1,410	2,144	1,393

A summary of the principal components of future tax liabilities calculated in accordance with Canadian accounting principles at October 31 is as follows:

	2001	2000
	\$	\$
Non-current future tax liabilities:		
Capital assets	(2,823)	(2,336)
Current future tax assets:		
Inventory	276	311
Accounts receivable	(30)	113
Corporate minimum tax credit	18	18
Accrued liabilities	95	33
	359	475
Non-current future tax assets:		
Deferred financing costs	—	8
Non-capital loss carryforwards	466	559
Capital loss carryforwards	15	28
Corporate minimum tax credit	114	114
	595	709
Valuation allowance	(84)	(120)
	511	589
	870	1,064
Net future tax liabilities	(1,953)	(1,272)

One of the Company's U.S. subsidiaries has non-capital loss carryforwards of \$1,171,000, of which approximately \$106,000 expires in each year from 2002 to 2012.

10. Commitments:

The Company leases office and warehousing facilities under operating leases. Rental expenses for all operating leases for the year totalled \$2,186,377 (2000 — \$1,866,668; 1999 — \$1,144,005).

Future minimum rental payments to be made for all non-cancellable operating leases are as follows:

	\$
2002	2,425
2003	1,854
2004	1,486
2005	914
2006	386
	7,065

11. Related party transactions:

The Company is party to certain agreements and transactions in the normal course of business with shareholders and companies related by common ownership. Significant related party transactions not disclosed elsewhere include rent of \$170,303 (2000 — \$173,852; 1999 — \$167,019), which is recorded at the amount agreed to by the parties.

12. Contingencies:

The Company is involved in various legal proceedings normally incident to its business which, in the opinion of management, will not have a material impact upon the financial position of the Company.

13. Financial instruments:

The fair values of the Company's financial assets and liabilities approximate their carrying values, based principally on short terms to maturities and interest rates offered to the Company for debt with similar terms and conditions. The Company periodically uses derivative financial instruments, including swaps, forward contracts and options to manage its foreign currency exposures. At October 31, 2001, the Company had no outstanding commitments.

14. Segmented information:

The Company manufactures and markets packaging and pool products. The Company operates in the United States and Canada.

By geographic region:

	2001	2000	1999
	\$	\$	\$
Sales:			
United States	96,410	89,131	71,556
Canada	15,214	15,833	11,875
	111,624	104,964	83,431

Capital assets and goodwill:

United States	25,806	25,883	19,611
Canada	7,044	7,125	5,496
Corporate	1,968	1,370	1,081
	34,818	34,378	26,188

By operating segment:

	2001	2000	1999
	\$	\$	\$
Sales:			
Packaging products	80,354	73,114	55,240
Pool products	31,270	31,850	28,191
	111,624	104,964	83,431

Depreciation and amortization:

Packaging products	4,226	2,938	1,612
Pool products	579	549	564
Corporate	729	548	403
	5,534	4,035	2,579

Operating profit:

Packaging products	7,174	10,121	7,994
Pool products	1,707	1,109	588
Corporate	(3,210)	(3,946)	(3,451)
	5,671	7,284	5,131

Total assets:

Packaging products	45,081	45,384	31,417
Pool products	18,414	18,027	15,088
Corporate	5,118	5,118	5,709
	68,613	68,529	52,214

Capital expenditures:

Packaging products	4,212	10,539	5,551
Pool products	660	1,473	805
Corporate	424	479	474
	5,296	12,491	6,830

15. Generally accepted accounting principles in Canada and the United States:

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada, which differ in certain material respects from the principles and practices that the Company would have followed had its consolidated financial statements been prepared in accordance with accounting principles and practices generally accepted in the United States.

(a) Change in reporting currency:

As described in note 1(a), effective November 1, 1999, the Company adopted the U.S. dollar as the reporting currency for its consolidated financial statements. Under United States accounting principles, when a change in reporting currency occurs, the new reporting currency should be used to retroactively restate all prior periods for which financial information is presented based on exchange rates in effect in those prior periods. The application of United States accounting principles with respect to a change in reporting currency would not have a material impact on reported earnings for any of the periods presented, or on total shareholders' equity.

(b) Stock-based compensation plans:

United States accounting principles allow, but do not require companies to record compensation cost for stock option plans at fair value. The Company has chosen to continue to account for stock options using the intrinsic value method as permitted under Canadian and United States accounting principles. The United States pronouncement does, however, require the disclosure of pro forma earnings and earnings per share information as if the Company had accounted for its employee stock options under the fair value method. Accordingly, the fair value of these options has been estimated at the date of grant using a Black-Scholes option pricing model with the following assumptions:

	Assumptions					
	Expected volatility	Risk-free interest rate	Weighted average fair value (Cdn. \$ per share)	Expected life	Vesting period	Dividend
Options granted:						
1999	60%	6.00%	2.69	7	7	—
2000	80%	6.50%	5.33	7	7	—
2001	80%	2.25%	2.70	7	7	—

	2001	2000	1999
	\$	\$	\$
Net income – U.S. GAAP	1,665	3,126	2,365
Compensation cost	246	275	258
Pro forma net income – U.S. GAAP	1,419	2,851	2,107
Basic and diluted earnings per share – U.S. GAAP	0.27	0.48	0.35
Pro forma basic and diluted earnings per share	0.23	0.43	0.31

(c) Comprehensive income:

In applying SFAS No. 130, "Reporting Comprehensive Income," net income would be decreased by \$173,000 (2000 – decreased by \$480,000; 1999 – increased by \$426,000) for other comprehensive income, which resulted from foreign currency translation adjustments. The total comprehensive net income for the year would be \$1,492,000 (2000 – \$2,646,000; 1999 – \$2,791,000).

(d) Statement of cash flows:

Under United States GAAP, the subtotal within cash provided by operating activities would not be permitted in the consolidated statement of cash flows.

(e) New United States recent accounting pronouncements:

In July 2001, the FASB issued Statement No. 141, "Business Combinations", and Statement No. 142, "Goodwill and Intangible Assets". These statements are substantially consistent with CICA Sections 1581 and 3062 (refer to note 1(o)) except that under United States GAAP, any transitional impairment charge is recognized in earnings as a cumulative effect of a change in accounting principle. Under Canadian GAAP, the cumulative adjustment is recognized in opening retained earnings.

In October 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which retains the fundamental provisions of SFAS No. 121 for recognizing and measuring impairment losses of long-lived assets other than goodwill. Statement No. 144 also broadens the definition of discontinued operations to include all distinguishable components of an entity that will be eliminated from ongoing operations. This Statement is effective for the Company's fiscal year commencing November 1, 2002, to be applied prospectively. The Company expects the adoption of this standard will have no material impact on its financial position, results of operations or cash flows.

In August 2001, SFAS No. 143, "Accounting for Asset Retirement Obligations", was approved and requires that the fair value of an asset retirement obligation be recorded as a liability, at fair value, in the period in which the Company incurs the obligation. SFAS No. 143 is effective for the Company's fiscal year commencing November 1, 2003. The Company is currently assessing the impact of this accounting pronouncement.

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Computershare Trust
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John Foglietta
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Martin De Groot
President
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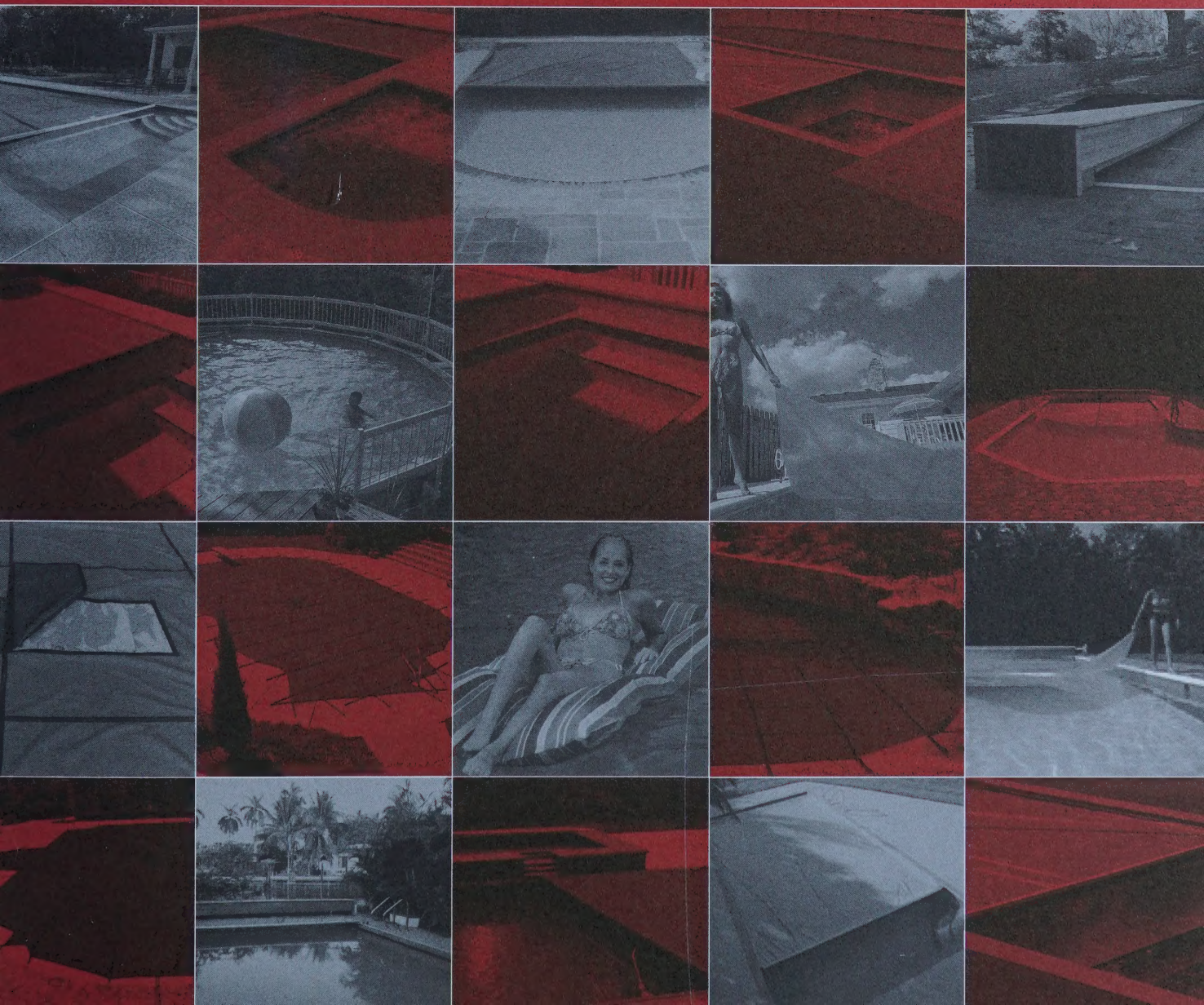
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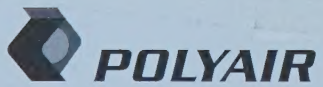
[†] Audit Committee

[†] Compensation Committee

Annual Meeting

The annual meeting of shareholders will be held April 18th, 2002 at 4:00 p.m. at Polyair Inter Pack's offices at 258 Attwell Drive, Toronto, Ontario. The meeting notice and proxy materials were mailed to shareholders with this report. Polyair urges all shareholders to vote their proxies so that they can participate in the decisions at the annual meeting.





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